INSTITUTE *of* STATISTICS
Oxford

Bulletin Vol. 12 *September, 1950* *No. 9*

PERSONAL SAVINGS THROUGH INSTITUTIONAL CHANNELS (1937–1949)

This article attempts to present a picture of personal savings through the major institutions over the period 1937 to 1949. The data used is largely drawn from official figures. In some cases this has been supplemented by figures from other sources. Where it appeared to be useful, material has also been taken from the various surveys of savings carried out in this country over the last decade.[1] By using all of these sources it is possible to give an over-all picture of personal savings through the major institutions and to give the break-down into the major groups namely ' National Savings ', Registered Provident Societies (which include Building Societies), and Life Assurance. It is also possible to make a more detailed analysis of the first two of these. Though it would have been more interesting to confine attention strictly to the savings of individuals, some elements of personal saving in the sense of savings of non-profit making institutions are unavoidably included.

In order that the limitations of the study may be clearly understood it is essential that the definitions of the terms used be noted. The figures available are for the funds held in each year by the institutions covered, and also the sums repaid to Building Societies on mortgage principal. The footnote to Tables V and VII indicates what sums are included in the totals. The flow of savings is taken to be the series of annual changes in the funds held by an institution or group of institutions plus repayment of mortgage principal to Building Societies in each year. This last cannot be represented as a fund and is excluded from all the tables showing funds though included in the tables showing flows of savings.

Changes in funds and flows are the net result of inpayments and outpayments and of interest accrued or credited. Outpayments of one sector through one channel may of course lead to inpayments through another channel either covered by this survey or not covered. Interest accrued during the year is not, of course, saving on the part of individuals though it may be accounted as personal in the sense given above.

---

[1] The Sources used include the following :—

Statistical—Registry of Friendly Societies ; Registered Provident Societies, General Statistical Summary, 1937–1947. Central Statistical Office ; Annual Abstract of Statistics No. 86 (1938–1948) (H.M.S.O. 1949). Monthly Digest of Statistics. Treasury ; Post Office Savings Bank Accounts. Trustee Savings Banks Annual Yearbooks. Aberdeen Trustee Savings Bank ; Annual Reports. National Debt Commissioners ; National Debt Returns.

Surveys.—Mass Observation ; A Savings Survey (Working Class) printed for private circulation only, December 1941. Charles Madge ; War-time Pattern of Saving and Spending (Cambridge 1943). F. Zweig ; Labour, Life and Poverty (London 1948). Social Surveys, Ltd. : The Public and National Savings 1948. A mimeographed report for the National Savings Committee. Thanks are due to the National Savings Committee for their kind permission to quote tables from this valuable report.

The choice of material has been dictated rather by availability than desirability. The consequent limitations demand some preliminary discussion. The most obvious limitation is the exclusion of a group of saving institutions of major importance, namely banks. Savings through bank deposits have been omitted from this report chiefly because it has been impossible to obtain a figure to represent satisfactorily personal savings through these channels. As will be explained later the inclusion of amounts representing savings other than personal presents some difficulty throughout. In the case of bank deposits these non-personal savings are likely to be a considerable proportion of the total. The published data are insufficient to allow for an estimate of its changing importance.

In some of the figures given in this article an element of business savings remains. In the case of Building Societies and of Life Assurance it has been possible to arrive at figures which may be taken to represent personal savings exclusively. Thus the largest element of business savings through Registered Provident Societies, namely that of Building Societies can be eliminated. The figures given for other forms of Registered Provident Societies may also be taken to represent predominantly personal savings. Some difficulty arises however with respect to National Savings. Any of these channels could be receptacles for small business savings. Where the chief object was the building up of a fund the various restrictions on liquidity would be an advantage rather than a disadvanage. For a number of reasons however, it may be supposed that the Trustee Savings Banks would be the most attractive channel for small business savings within this group. Larger amounts may be withdrawn on demand from these than from the Post Office, and the local Trustee Savings Banks offer many of the advantages of the ordinary bank. Very little material is available upon which an estimate of the amounts involved could be based. The Aberdeen Trustee Savings Bank[1] attempts each year to classify depositors according to their economic status. In 1949 something like 4.5 per cent of all depositors were classified as 'shopkeepers, salesmen and assistants'. In addition some 0.35 per cent of depositors were classified as 'boot and shoe makers, tailors, dress makers, milliners, and furriers'. Between them they held about 5.5 per cent of total deposits. Some if not most of this will be personal savings and even though some further business savings may be hidden under the heading of 'not classified', to put the business savings at 5 per cent of the total is to place the estimate very high. Since Scotland is the stronghold of the Trustee Savings Bank and since the attraction of Trustee Savings Banks for small scale business savers is likely to be greater than that of any other form of National Savings it may be concluded that the element of business savings included in the total for this group must be very small. This is borne out by the information given by the various surveys. We will therefore presume that the figures given for National Savings represent personal savings almost entirely.

---

[1] This information has been taken from the Aberdeen Savings Bank Annual Report, 1949, p. 7.

One of the chief drawbacks of a savings enquiry based upon institutional funds is that little can be said except in the most general terms about the economic or social status of the savers. Building Societies and Life Assurance Companies are usually regarded as channels for middle-class savings. This is likely to be true on the whole from the nature of these types of saving since substantial amounts of saving are involved. Even in the case of deposits in Building Societies the average size of deposits is fairly large though small deposits may be made. Other types of Provident Societies with the exception of Industrial and Provident Societies are almost exclusively channels for working class savings (see Table IV). The funds of Industrial and Provident Societies obviously may be derived in part from sources other than working class savings. Non-working class elements are likely to be very small. There is little doubt that the main motive for membership at the present time is economic rather than ideological and the economic gains are too small to appeal to any but the low income groups. Moreover, the nature of saving through this channel (chiefly consisting of co-operatives) excludes the possibility of a high degree of concentration in the hands of a few members since savings are proportional to expenditures and expenditures largely confined to necessary goods. Thus saving through this channel is probably almost entirely drawn from the working classes. Savers through the channels of National Savings are likely to be more heterogeneous. Some of the characteristics of saving through these channels are likely to appeal only to the very small scale saver, others only to the more substantial saver. The limit of £3 on demand imposed in the case of withdrawals from the Post Office Savings Bank and the nuisance of continual parting with the book makes it possible that at the present time the appeal of this method of saving will be greater for the small saver though before and during the war this limit would not have been as grave a disadvantage as it is now.[1] The formation of savings groups during the war would have greatly increased the effectiveness of National Savings for the lowest income groups where saving is difficult without some such stiffening of morale. National Savings Certificates have the merit for the larger-scale saver that interest is free of income tax. Since the war the Post Office Savings Bank has fallen between two stools. The low limit on demand payments causes it to be attractive chiefly to the smallest savers while its ' casual ' character as a medium of savings appeals only to the rather more substantial saver. The recent figures show that while the Post Office Savings Bank is declining rapidly in importance as a medium of savings the Trustee Savings Banks are becoming increasingly important.[2]

---

[1] Probably however the degree of liquidity offered is still quite sufficient for many higher-income savers.

[2] An article in the *Financial Times* for April 5th, 1950, discusses this development, under the title ' The Rise in Trustee Savings '.

These latter offer many advantages over the Post Office Savings Bank; a higher amount may be drawn on demand from the 'home' bank, though only £3 may be withdrawn from another bank and then only after some special arrangement has been made, and the banks offer many of the services of an ordinary bank together with the guaranteed 2½ per cent interest. The chief advantage which the Post Office offers over the Trustee Savings Bank is the greater ubiquity of offices and this is being gradually lost as the Trustee Savings Bank movement grows.[1] Some information as to the economic characteristics of the savers through the National Savings channels is provided by the survey 'The Public and National Savings 1948.'[2] This survey was based on a random sample of 2,268 individuals of all ages distributed in urban and rural communities of England and Wales.[2] The results of this survey indicate a considerable concentration of holdings, though National Savings were spread over 59 per cent of the total adult population (aged 15 years and over).[3]

The following tables show size of holdings of National Savings and their concentration as indicated by the 1948 survey :

TABLE I

National Savings : Size of Holdings

Size of Holdings	% of adult population.
Nil	40.8
Under £50	24.7
£50—£100	12.0
£100—£250	11.2
£250—£500	4.9
£500—£1,000	3.3
Over £1,000	3.1

Source : Social Surveys Ltd., The Public and National Savings 1948, p. 10.

TABLE II

Concentration of National Savings

Individual size of investment	per cent of adult population	per cent of total investment
Over £2,000	0.7	18.4
Over £1,000	3.1	44.4
„ £500	6.4	62.2
„ £250	11.3	75.3
„ £100	22.5	89.2
„ £50	34.5	95.6
Any amount	59.2	100.0

Source : Social Surveys, Ltd. : The Public and National Savings 1948, p. 10.

The same survey provided a limited amount of information regarding the distribution of other forms of savings through the population. The following table shows the principal types of saving other than National Savings which were reported by income groups. It should be noted that the high percentages for life assurance in the low income groups are due to the inclusion in this category of all forms of Industrial Assurance.

---

[1] The number of offices has increased from 770 in 1945 to 1065 in 1949. In 1938 it was 680.

[2] Social Surveys, Ltd. See footnote, p. 1.

[3] All the forms of National Savings are subject to an upper limit on holdings. In the case of the Savings Banks this is £2,000, for Government Stock £1,000, and for National Savings Certificates 1,000 units of Eighth Issue, 500 of earlier issues and 250 of the £1 issue.

TABLE III

Principal Types of Savings reported other than National Savings in Social Surveys, Ltd., Survey

	Life Assurance or Endowment Policy	Co-operative Society	Building Society	Pensions Fund	Savings or Loan Club
	%	%	%	%	%
Total	53	15	12	11	10
By Income Group—					
Under £150	33	8	3	2	5
£150—£250	53	16	7	8	12
£250—£500	62	20	18	18	12
£500—£1,000 ...	61	10	27	18	7
Over £1,000	59	3	21	12	—

Source : Social Surveys Ltd. : The Public and National Savings, 1948, p. 32.

One of the defects of the figures which are presented for savings in these various forms is that a certain amount of overlapping cannot be avoided. This problem is more fully discussed in the following section.

FUNDS OF PERSONAL SAVINGS HELD BY INSTITUTIONS (1937–1949)

Table IV represents the total fund of personal savings held by all the institutions covered and by the three major groups over the period 1937–1949 as amounts, as indices based on 1937, and as percentages of the various funds. It should be noted that mortgage repayments to Building Societies are not included either in Table I or in Table II since they cannot be presented in the form of a fund.

The figures presented in Tables IV and V contain an element of duplication which it is not possible to eliminate. Some of the Registered Provident Societies and Life Assurance Companies hold some part of their funds in the form of National Savings, and this characteristic is likely to have been more marked during the war period. One indication of the order of magnitude of the sum involved is that afforded by the Aberdeen Savings Bank where in 1949 the deposits of Friendly Societies, Charitable and Provident Societies and Trade Unions amounted to some 4.2 per cent of the total deposits. This is unlikely to be a representative figure in that it is taken from a single bank in a single year. Over the period funds of the types of societies concerned consistently increased but at a much slower rate than did the stock of savings in National Savings and this would cause the duplicated proportion of National Savings to decline. On the other hand the pressure to put such funds into National Savings rather than other forms increased over the period. In the case of the Aberdeen Savings Bank the percentage was the same in 1938 as in 1949. Obviously this does not provide a basis for the estimation of the amount which is duplicated each year.

TABLE IV[1]

Total Fund of Personal Savings held by Three Major Groups of Institutions as amounts, indices (1937 = 100) *and as per cent of the total,* 1937–1949.

	Total[2]		Registered Provident Societies[2]			National Savings			Life Assurance		
	Amount (£m.)	Index	Amount (£m.)	Index	%	Amount (£m.)	Index	%	Amount (£m.)	Index	%
1937	4017	100	1620	100	40	1413	100	35	984	100	25
1938	4211	105	1719	106	41	1470	104	35	1023	104	24
1939	4381	109	1766	109	40	1573	111	36	1042	106	24
1940	4862	121	1780	110	37	2028	144	42	1054	107	22
1941	5560	138	1835	113	33	2643	187	48	1081	110	20
1942	6286	157	1916	118	31	3255	230	52	1115	113	18
1943	7169	179	2028	125	28	3987	282	56	1153	117	16
1944	8046	200	2150	133	27	4703	333	59	1193	121	15
1945	8905	222	2282	141	26	5379	381	60	1244	126	14
1946	9645	240	2432	150	25	5897	417	61	1314	133	14
1947	9986	249	2584	160	26	6011	425	60	1391	141	14
1948	10237	255	2740	169	27	6036	427	59	1461	149	14
1949						6098	432				

[1] The figure for the total funds of institutions for saving is composed of the funds of Registered Provident Societies, Life and Annuity Funds of Life Assurance Companies, and National Savings.

Registered Provident Societies : In the composite figure for total funds are included the funds of the following :

(*a*) Societies registered under the Friendly Societies Acts.
(*b*) Collecting Societies' industrial assurance (this includes other benefit funds).
(*c*) Industrial Assurance Companies.
(*d*) Industrial and Provident Societies.
(*e*) Building Societies (these will be further analysed).
(*f*) Trade Unions.
(*g*) Workmen's Compensation Schemes.
(*h*) Certified Loan Societies.
(*i*) Railway Savings Banks.
(*j*) Superannuation and other Trust.

Duplication of funds has been eliminated from the total. The figures are obtained from the General Statistical Summary 1937 to 1948.

Life Assurance : The figures taken to represent savings in the form of life assurance are the figures for life and annuity funds at the end of the year as held by companies established in the United Kingdom. For convenience it is assumed that savings in this form held by non-residents in the United Kingdom is roughly balanced by savings held by residents in the U.K. in companies established out of the United Kingdom. This the assumption which is made by Radice for his study of Savings. In general the validity of such an assumption would be most doubtful, savings through British Companies by foreigners would outweigh savings by residents of this country in foreign companies. For the purposes of this particular study, however, it is a sufficiently good working assumption since we are chiefly concerned with annual flows of savings and these must have been small in either direction over the period with which we are concerned.

National Savings. The total funds held in the form of National Savings include the following items :—

(*a*) Post Office Savings Bank Deposits, *i.e.* amounts standing to the credit of depositors, including accrued interest not credited to depositors' accounts.
(*b*) Trustee Savings Bank Deposits, *i.e.* amounts standing to the credit of depositors, including accrued interest not credited to depositors' accounts—Ordinary and Special Investment Departments.
(*c*) Government securities on the Post Office Register, *i.e.* nominal amounts of Government securities held on Post Office Register (Post Office and Trustee Savings Bank Section) including Defence Bonds.
(*d*) National Savings Certificates, *i.e.* the principal remaining invested and the estimated accrued interest.

[2] Business Savings of Building Societies have been eliminated from figures given for amounts in each year. Mortgage principal repayments are not included as they cannot be expressed as a fund. The total is simply the sum of the parts and no allowance has been made for the duplication which is known to exist between the major groups.

Another source of information would be the financial accounts of these institutions, which might be expected to give the proportion of their assets held in a form corresponding to the channels here described as National Savings. This information is not published for many of such societies, but is available in the case of Life Assurance Companies and of Building Societies. The total investment of Building Societies in forms other than advances is shown below.[1]

It should be noted that the total consists of all investments other than in advance business, but the major part at least in the war years consisted of Government Securities.[2] Government Securities held by Life Assurance Companies are not available, but those held by all Assurance Companies (life and other) are given in the Table below.[3]

	1937	1938	1945	1946	(£000) 1947
Investments of Building Societies	—	53,243	216,098	202,301	179,397
Govt. Securities of Assce. Cos. ...	373,556	—	983,502	1,007,414	976,520

A considerable part of this total is likely to be held by Life Assurance Businesses.

In neither case are the figures sufficient for the elimination of duplication since they include amounts which are irrelevant to the problem in hand, and also it is scarcely possible to say how far they are held against personal savings and how far they represent business savings which have been eliminated from our figures. They can therefore, be useful only as a rough guide to the extreme upper limit of duplication occurring. There is probably duplication in other areas of this survey also, notably between Trade Unions and the Industrial and Provident Societies. The error arising from this duplication is greatest in Table IV, where the total is simply the sum of the parts and it affects the index as well as the amounts. In Table IV the portions which are most inaccurate are the amounts shown for total National Savings and the corresponding indices and also the percentage figures given. The above discussion and comments apply also to Tables VIII and IX which should be regarded with similar reservations.

It can be seen from Tables IV and V that the stocks of savings held by the various institutions covered increased considerably over this period, and also that the pattern of distribution of funds as between the three major groups was greatly changed over the course of the decade. The rapid increase in the use of National Savings brought this group to the fore, while the Registered Provident Societies fell from the first to the second place. The percentage of total funds held in the form of Life Assurance declined though funds continued to increase throughout the period. The increase in funds held in the form of National Savings is the most outstanding feature shown in these tables. These funds increased more than fourfold during the decade and their relative share rose from about 35 per cent of the total in 1937 to some 60 per cent in 1947.

---

[1] *Building Society Yearbook*, 1949.

[2] *Building Societies Yearbook*, 1941, p. 11. ' Readiness to participate in the national war effort has been widely manifest among building society managements and a considerable proportion of the increase in their total investments is accounted for by subscriptions to War Loan and Defence Bonds spread over many local war weapons weeks. An important facility arranged by the R. and A. with the Government whereby Societies are enabled to extend their investments in the P.O.S.B. to a maximum of £250,000 in any calendar year, greatly enlarged their opportunities for service in this direction.'

[3] Statistical Abstract 1938–48, p. 263.

In 1937 and 1947 the distribution of Provident Societies' funds between the various types of societies was as follows :—

TABLE V[1]

Funds of Personal Savings held by Provident Societies : Percentage Distribution of Total, 1937, 1947.

	1937	%	*1947*	%
Friendly Societies	153.6	9.7	216.6	8.2
Industrial Assurance	417.2	26.4	758.7	28.8
Industrial and Provident Societies	281.5	17.8	514.0	19.5
Building Societies	609.1	38.5	882.2	33.5
Trade Unions	18.5	1.2	50.8	1.9
Superannuation	75.9	4.8	166.6	6.3
Other	27.7	1.8	44.0	1.7

[1] These percentages are based upon the total of the individual segments and not upon the total given for Registered Provident Societies in Table IV where duplication of funds has been eliminated.

In the same years the distribution of total funds of savings held in the form of National Savings as between the four types was as follows :—

TABLE VI

Distribution of Total Funds in National Savings Media as between the Different Types, 1937, 1947.

	1937	*1947*
Post Office Savings Bank	33.3	32.2
Trustee Savings Bank	15.9	12.3
Government Stock	14.4	21.1
National Savings Certificates	36.5	34.4

The most important of the subdivisions of Registered Provident Societies is the Building Societies group which in spite of particular difficulty during the war years accounted for a substantial proportion of total funds (consistently more than 32 per cent) throughout the period covered.

Funds of savings held increased consistently during this period in Friendly Societies, Industrial Assurance, Trade Unions, and Superannuation and other Trust Funds. In Industrial and Provident Societies a falling off was experienced in 1940, in Building Societies in 1940 and 1941, and in ' Other ' Societies in 1942. Comparatively little change in the distribution of funds held as between the different types of society was brought about during this period. Friendly Societies and Building Societies declined in relative importance according to the percentage of total funds held. Industrial Assurance, Industrial and Provident Societies, Superannuation and other Trust Funds and Trade Unions gained in importance in this respect, but in each case the change was relatively small, being greatest in the case of Building Societies.

In the National Savings group Government Securities on the Post Office Register which include Defence Bonds increased most. By 1947 these funds had risen to more than six times the 1937 figure, but since 1947 they have declined. Post Office Savings Bank funds and National Savings Certificates increased at about the same rate over the entire period reaching rather more than four times the 1937 figure in 1949, but whereas National Savings Certificates held have increased continuously, Post Office Savings Bank Funds declined between 1946 and 1949. Trustee Savings Bank Funds increased least rapidly in this group, but here also growth was very great, and has continued up to 1950. The distribution of funds between the four types of National Savings has not changed violently over the whole period from 1935 to 1949. The impact of war had some influence on the distribution of savings funds between the four types. Government Stock on the Post Office register gained relatively from 1939 to 1946, but have since declined in relative importance. National Savings Certificates improved their share slightly between 1939 and 1944, but by 1945 were down to 34.9 per cent. The Post Office Savings Bank held a higher percentage of total funds in 1939 than in any subsequent year. The Trustee Savings Banks declined in relative importance until 1945 after which they show steady gains in the percentage of total National Savings which they held.

Current Flows of Personal Savings into Institutional Channels

The two tables which follow summarise the information about the flow of savings into the institutional channels covered for the years 1927–37 and 1937–47. The totals given include:

1. The annual changes in the amount of the funds of savings held by the various institutions;
2. Annual figures for the repayment of mortgage principal to building societies.

Table VII illustrates the considerable growth of institutional savings over the whole period. The dip in 1939 was largely the result of a decline in savings through Building Societies and Life Assurance businesses, due in part to the deliberate policy of these institutions at the outbreak of war, combined with the desire of the public for greater liquidity. The wartime rise needs little explanation: rising employment, rising money incomes, together with rationing and growing shortages of goods, in particular of durable consumers' goods, and the drive for war savings, led to a rapid expansion of total savings and in particular of the National Savings.

These special factors were absent in the previous decade (see Table VII), yet no obvious connection could be traced between money or real income and institutional savings for the period 1927–37. Institutional savings grew in 1930 despite the severe depression. The drop in the following year was considerable, but the year 1932 shows a remarkable recovery. In that year savings through Life Assurance were half as great again as in 1930, in Post

TABLE VII[1]

Flow of Personal Savings into Major Institutional Channels, as Amount and as an Index (1937=100) 1927–1948.[2]

(£ millions)

	Amount	*Index*
1927	130	45.0
1928	156	54.0
1929	171	59.2
1930	188	65.1
1931	140	48.4
1932	209	72.3
1933	211	73.0
1934	241	83.4
1935	287	99.3
1936	279	96.5
1937	289	100.0
1938	280	97.1
1939	244	84.6
1940	530	183.6
1941	742	256.9
1942	778	269.4
1943	943	326.5
1944	944	326.8
1945	946	327.8
1946	861	298.0
1947	491	169.9
1948	412	142.6

[1] Business Savings of Building Societies have been eliminated from and mortgage principal repayments included in the total amounts given for each year. No allowance has been made for the duplication which is known to exist between two of the major groups included. The total is simply the sum of the parts.

[2] The figures for 1927–1936 are not as reliable as the later figures. They are compiled by adding together increases or decreases for all Registered Provident Societies (business savings of Building Societies excluded), Post Office and Trustee Savings Banks, Life Assurance, and National Savings Certificates. The last have had to be adjusted for December 31st. Life Assurance figures were estimated by subtracting outgoings from inpayments. Repayments on mortgage principal are added.

TABLE VIII

Annual flow of Personal Savings through Major Institutions as amounts, Indices (1937=100) and as percentages of total flow, 1937–1949.

	Registered Provident Societies			National Savings			Life Assurance		
	Amounts £ mill.	Index	%	Amounts £ mill	Index	%	Amounts £ mill.	Index	%
1937	191.2	100.0	66.2	55.7	100.0	19.3	41.9	100.0	14.5
1938	185.5	97.0	66.1	56.9	102.2	20.3	38.1	90.9	13.6
1939	121.7	63.7	49.8	103.4	185.6	42.3	19.2	45.8	7.9
1940	63.8	33.4	12.0	454.3	815.6	85.6	12.4	29.6	2.3
1941	99.3	51.9	13.4	615.5	1105.0	82.9	27.3	65.2	3.7
1942	132.3	69.2	17.0	611.7	1098.2	78.6	34.0	81.2	4.4
1943	172.8	90.4	18.3	732.5	1315.1	77.7	37.9	90.5	4.0
1944	188.5	98.6	20.0	715.7	1284.9	75.8	39.9	95.2	4.2
1945	218.4	114.2	23.1	676.1	1213.8	71.5	51.1	120.0	5.4
1946	271.2	141.8	31.6	518.1	930.2	60.3	69.4	165.6	8.1
1947	301.5	157.7	61.2	113.4	203.6	23.0	77.7	185.4	15.8
1948	316.7	165.6	76.9	25.5	45.8	6.2	69.6	166.1	16.9
1949	—	—	—	61.4	110.2	—	—	—	—

Office and Trustee Savings Bank deposits they were twice as great.[1] The year was at the depths of the depression and dominated financially by the conversion operations of the Government. There seems no adequate single explanation of the upswing in institutional savings, but there are a number of factors which may have contributed to it. The improvement of real standards of living for those in employment may have more than compensated for the fall in real income of those suffering from the fall in demand. It seems possible also that the desire to save on the part of those able to save would be given a strong impetus from the feeling of insecurity. The figures given represent only part of the savings picture, and it may be that the figure for 1932 is maintained strongly by transference from other channels of saving such as Government Securities after the conversion in July and August of £2,080 million 5 per cent war debt to 3½ per cent (though payments were not made until December 1st). There is no possibility, of course, of weighing the figures given here against the amounts of personal indebtedness incurred. There was also a dearth in 1932 of other outlets for saving such as new capital issues, and in a period of depression investors naturally show a preference for low earning but secure investments. Institutional savings grew more quickly from 1934 to 1937 than they did in the corresponding recovery period 1937 to 1939, when money incomes and prices were high.

The similarity of the figures for gross personal savings given in the latest National Income White Paper for the years 1938 and 1946–47 war series, though striking, is fortuitous.[2] Our definitions and coverage here differ in many respects from those of the White Paper. To obtain comparable figures, not only should the defects of our own data be eliminated, but the field of enquiry would have to be extended considerably. Thus it would be essential to obtain a complete coverage of both institutional and non-institutional channels of personal saving. Within this extended area would come cash holdings, bank deposits, stock exchange invesments, and direct investment in capital equipment, with corresponding deductions for hire purchase credits and changes in personal indebtedness.

Our figures cannot therefore provide a basis for computing saving propensities. If it could be established that they accounted for most of the savings of the lower income groups, and suitable corrections could be made for changes in personal indebtedness, they might be taken, if related to the White Paper figures, as an indication that small savings were sufficiently positive to make personal savings of the middle and upper income brackets zero or negative. But there is not sufficient evidence to justify these specific assumptions, and no such conclusions can therefore be drawn from these data. It is, however, of some interest that the proportion of total disposable income flowing as savings into the institutional channels here covered was about the same in 1938 and 1947. By 1947 such savings had fallen to about

[1] Aggregate deposits of Joint Stock Banks increased by £315 million between February, 1932, and July 1933.

[2] These figures were :—£ *millions*: 1938, 217 ; 1946, 802 ; 1947, 440.

half their wartime peak, but this fall continued in 1948 and probably in 1949, while disposable income rose throughout the period. This absolute and relative fall must of course be associated with the greater availability of goods, particularly of durables, and the pressure of pent-up demand. There is no sign yet that institutional savings are settling down to a particular level, and even less evidence about the relative strength of the various factors which influence the savings contributions of different income groups to different savings institutions.

Table VIII, which gives the breakdown of the total by three main groups, brings out most clearly how misleading it can be to use National Savings figures as representative of movements in personal savings. What appears as dis-saving in one particular channel may simply be a transfer of savings to other institutional channels, or to channels outside the scope of this article. Thus when National Savings are positive in a particular year, this may represent either a transference from Registered Provident Societies or Life Assurance or from any of the various forms of savings which are not covered by our survey. It is certain that this did occur during the war years under the impact of propaganda, but the general statement which it illustrates holds good throughout the period 1937–1947. Where the term ' saving ' or 'dis-saving' occurs, therefore, it should be remembered that they have meaning only in their specific context. In the detailed tables which follow it should be noted that the minus sign is used to denote ' dis-saving ' in the particular section. Thus in 1940 Industrial and Provident Societies' Funds decreased by £1.4 million (see Table IX).

A more detailed breakdown of the totals can be provided for Registered Provident Societies and for National Savings. Table IX shows current savings flows through Registered Provident Societies over the period, and includes in the case of building societies also repayments of mortgage principal. The percentages given in Table X are computed from the figures given in Table IX.

TABLE IX

Current Savings flow through Provident Societies 1938–1948 (£ million).

	Friendly Societies	Industrial Assurance	Industrial and Provident Societies	Building Societies	Trade Unions	Super-annuation and other Trust Funds	Other Regd. Provident Societies
1938 ...	5.7	26.9	13.8	129.8	1.9	7.3	2.0
1939 ...	4.0	20.8	6.4	82.4	2.2	6.2	1.4
1940 ...	4.2	19.4	—1.4	32.6	2.5	7.9	1.1
1941 ...	7.9	24.6	20.6	36.9	2.8	7.7	1.8
1942 ...	7.0	30.5	29.9	55.1	3.8	9.3	—.1
1943 ...	8.2	34.0	41.8	77.4	3.8	9.2	2.1
1944 ...	6.9	37.5	37.8	93.3	3.9	10.4	2.6
1945 ...	6.3	50.7	34.6	112.5	3.5	9.4	5.8
1946 ...	6.8	50.9	33.7	170.6	3.8	11.5	.4
1947 ...	6.0	46.3	15.3	221 8	2.9	11.8	—.9
1948 ...	3.8	47.1	8.4	238.5	4.4	17.4	—.5

TABLE X

Current flows of Personal Savings through Groups of Provident Societies as Percentage of Total flow through all Provident Societies, 1938–1948

	Friendly Societies	Industrial Assurance	Industrial and Provident Societies	Building Societies	Trade Unions	Super-annuation and other Trust Funds	Other Regd. Provident Societies
1938 ...	3.0	14.4	7.4	69.3	1.0	3.9	1.1
1939 ...	3.2	16.8	5.2	67.8	1.8	5.0	1.1
1940 ...	6.4	29.5	—2.1	49.2	3.8	12.0	1.7
1941 ...	7.7	24.1	20.1	36.1	2.7	7.5	1.8
1942 ...	5.2	22.5	22.1	40.7	2.8	6.9	—0.1
1943 ...	4.7	19.3	23.7	43.9	2.2	5.2	1.2
1944 ...	3.6	19.5	19.7	48.5	2.0	5.4	1.4
1945 ...	2.8	22.8	15.5	50.5	1.6	4.2	2.6
1946 ...	2.5	18.3	12.1	61.4	1.4	4.1	0.1
1947 ...	2.0	15.3	5.1	73.2	1.0	3.9	—0.3
1948 ...	1.2	14.8	2.6	74.7	1.4	5.5	—0.1

Within the Registered Provident Societies the annual flows of savings show considerable variation both from year to year in the same group and in the percentage distribution as between the different groups. The greatest variation is shown by the series for Building Societies where the range was from £221.8 million in 1947 to £32.6 million in 1940. Building Societies' share of annual saving through Registered Provident Societies ranged from 36.1 per cent to 73.2 but was throughout the predominant savings channel in this group (and by far the most important single element in influencing the total figure of savings for Registered Provident Societies).

Both Friendly Societies and Industrial Assurance show an initial set-back on the outbreak of war which can be attributed at least in part to the general dislocation of labour which occurred. This is borne out by the fact that savings through these channels had recovered their pre-war level by 1941 and 1943 respectively. The same factor strongly affected the figures for repayment of mortgage principal to Building Societies.

From the point of view of savings there are three items in the finances of Building Societies which are of interest, namely :—

(i) Balances of Profits and Reserves from year to year.
(ii) Shares and Deposits.
(iii) Repayments of mortgage principal.

Of these, the first represents strictly business savings, while the second and third together give the total of personal savings through Building Societies. Throughout this article hitherto the element which may be regarded as business savings has been consistently omitted. Personal savings through Building Societies properly consist of shares and deposits and repayment of mortgage principal. In each of the stock figures given for or inclusive of Building Societies' funds the amount due to shareholders and depositors alone has been used to represent the stock of savings. In the tables representing savings flows repayments of mortgage principal are added to changes in the amount due to shareholders and depositors to give the total flow of personal savings through Building Societies. In the following Table XI these two sources of personal savings are given separately.

TABLE XI

Personal Savings through Building Socities. Annual Flow 1937-47, and Fund 1936-48 (£ million).

	Shares and Deposits	Increase or Decrease	Mortgage Repayments
1936	609.1		
1937	660.8	51.7	87.1
1938	703.9	43.2	86.6
1939	711.4	7.5	75.0
1940	694.5	—16.9	49.5
1941	687.6	—6.9	43.8
1942	690.9	3.3	51.8
1943	708.0	17.2	60.3
1944	734.0	26.0	67.3
1945	760.3	26.3	86.1
1946	809.8	49.5	121.1
1947	882.2	72.4	149.4
1948	960.1	77.8	160.7

This detailed table of savings through Building Societies over the period is of interest in that the two types of personal savings for which the organisations are a channel are differently affected by external economic conditions owing to the peculiarities of each as a method of saving. Mortgage repayments are contractual and are normally determined much in advance by the demand for borrowing on the members' side and the policy for lending on the Societies' side. They will thus tend to reflect economic conditions only with a time lag. Owing, however, to the great abnormality of the period, the series for Mortgage Repayments given in Table XI reflects external events with a promptitude that is unusual. On the outbreak of war the Building Societies for a time ceased business on the lending side and this was a depressing influence on repayment figures for subsequent years. More immediately important was the curtailment of routine payments which resulted from the extraordinary circumstances in which borrowers found themselves as a result of call-up, unemployment, displacement, and war-damage. The societies had to make special arrangements for repayment of borrowers thus affected, reducing rates of repayment and postponing final dates of repayment. Both these factors acted as a depressing influence throughout the duration of the war. Personal savings in the form of shares and deposits are 'casual' or 'occasional' in character and as such may be expected to reflect more immediately than mortgage repayments the economic circumstances of the savers. But here also the policy of the Societies was the predominant factor. During the war when normal business of building societies on the lending side was necessarily curtailed they found difficulty in disposing of funds. In 1939 total assets consisted of 91.3 per cent balance due on mortgage, 6.3 per cent investments and 2.5 per cent other assets.

Over the war the percentage of total assets in investments increased considerably and in 1945 total assets consisted of 69.6 per cent balance due on mortgage, 26.2 per cent investments and 4.2 per cent other assets. Throughout the war period the policy of the societies was consolidation rather than expansion of share capital and deposits and the encashments which took place during the early years of the war were not unwelcome and were regarded as representing the loss of the less stable saving members. As might be expected, deposits showed a greater reaction to external conditions than did share capital, the rate of decline in the former being greater than the rate of increase in the latter in 1939.

NATIONAL SAVINGS

The growth of various forms of what are known as National Savings is shown in Table XII. The very marked rise of all series during the war needs no explanation, but the very uneven development since the end of the war requires some comment. The outstanding feature is the great stability shown by the flow of savings into Trustee Savings Banks, which to some extent must be the result of a strong upward trend indicated by the increase in the number of such banks. New customers' inpayments have more than compensated for the withdrawals by existing members, making Trustee Savings Banks the strongest institutions for saving in this sector in 1948–49. On the other hand war-time propaganda must on the whole have turned potential savings into other channels more closely associated in the public mind with the concept of National Savings.

TABLE XII

National Savings. Current flow of Savings through different through Channels, 1936–1949
(£ million)

	P.O.S.B.	T.S.B.	G.S.	N.S.C.
1936	42.1	14.5	—4.7	6.6
1937	38.1	12.1	2.2	3.3
1938	38.8	14.1	1.3	2.7
1939	42.0	11.2	27.5	22.7
1940	101.0	29.1	157.9	166.3
1941	170.6	48.5	180.9	215.5
1942	181.9	56.2	142.2	231.4
1943	234.7	69.8	131.4	296.6
1944	252.6	79.3	118.0	265.8
1945	283.5	72.9	158.0	161.3
1946	205.2	69.6	184.3	59.0
1947	–44.0	62.0	—38.0	133.4
1948	20.7	62.3	−98.0	49.9
1949	—8.8	54.2	—16.4	22.6

These other forms of National Savings move erratically downwards during the post-war period, and it is not easy to explain the year to year movements. The following factors seem, however, to be relevant.

The sharp fall in National Savings Certificates in 1946 is the result of a sharp rise in repayments, and a sharp fall in receipts. There is some evidence for supposing that the patriotic motive for saving was stronger in the case of

National Savings Certificates than for any other form of National Savings.[1] Much of the saving of people through National Savings Certificates during the war was intended for post-war spending. Savers through National Savings Certificates are likely to be less wealthy than savers through Government Stock, and this may have played a part in producing the different movements shown in 1946 by these two types of saving. Government Stock holders are very likely to be holding other more liquid assets in addition.

The sharp drop in Government Stock between 1947 and 1949 was due to the maturing of the first issue of Defence Bonds and the lowering of the rate of interest on the new issues. Payments on maturity amounted to £25.7 million in 1946–7, to £106.0 million in 1947–8 and to £52.1 million in 1948–9. The rise in National Savings Certificates in 1947 is perhaps the result of a transference of funds deflected from Government Stock by the lowering of interest rates, and attracted to National Savings Certificates by exemption from tax. New receipts on Defence Bonds fell off sharply in 1947–8 and 1948–9, owing probably to the fall in interest rates on new issues.

The figures for Post Office Savings Banks in 1946 are inflated by the inflow of service release benefits. The subsequent figures are deflated by the extensive withdrawal of these sums. But even the figures which exclude such benefits show a sharp rise in withdrawals in 1945–6, 1946–7 falling off in subsequent years though receipts rose over these two years, falling afterwards as shown in the following table.

Post Office Savings Bank Receipts and Withdrawals

				(£ million)
		Receipts	*Withdrawals*	*Interest Account*
March 31st,	1945	428.4	201.8	33.7
	1946	458.6	337.2	39.5
	1947	464.7	415.7	45.1
	1948	426.2	404.7	47.4
	1949	372.2	364.6	47.7

Source : *Statistical Abstract*, 1950, Table 145.

If accrued interest were eliminated the figure for saving through National Savings Certificates in 1949 would become negative to the extent of £11.6 million. Similarly, the negative figure for Post Office Savings Banks would be increased by some £47 million.[2]

INSTITUTIONAL SAVINGS AND SOCIAL SECURITY

The wartime growth and post-war decline in Savings are accounted for by basic economic conditions. The fluidity of their distribution between institutions is a marked feature throughout the period, and we know little about the reasons for these shifts. The Mass Observation report indicates that working class people are but little aware of the financial advantages of one form over another. The patriotic motive was however undoubtedly important in influencing the forms which savings took during the war.

---

[1] *Social Surveys, Ltd.*, p. 12 and p. 8.

[2] National Savings have received greater attention in recent years than the other forms of institutional savings here covered. A more detailed discussion of post-war developments can be found in the *Midland Bank Review* for November 1949, under the title ' National Savings '.

It has already been noted that Provident Societies were more likely to be affected by the call-up of members. This is true particularly of Friendly Societies, Industrial Assurance, and Building Society repayment of mortgages.[1] Even more influential in retarding the growth of Provident Societies as a group however was the deliberate policy of retrenchment on the part of Building Societies. Some part of Provident Society business during the war must have been lost owing to the competition with voluntarily organised National Savings Groups since the particular attraction of some of these forms (*e.g.* Industrial Assurance, Collecting Societies) arose from the regularity of collection of small sums of savings.

The forms of savings which come under the title of National Savings are, on the whole, the most liquid of the three forms of savings here discussed and the large funds of savings in these channels may be regarded as potentially inflationary. One of the major attractions of National Savings during the war was their liquidity, especially in the Savings Banks, and post-war needs were among the motives for wartime savings. In the Social Surveys, Ltd., project respondents holding National Savings were asked whether their holdings had increased or decreased in the past twelve months. The following table gives the answers.

TABLE XIII

Percentage of Savings Bank and Savings Certificates Holdings increased or decreased during the last 12 months.[1]

	Savings Bank		Savings Certificates	
Present size of holding	Increased %	Decreased %	Increased %	Decreased %
Under £50 ...	23	49	20	12
£50—£100 ...	34	38	33	15
£100—£250 ...	37	32	32	8
£250—£500 ...	50	34	34	3
£500 and over	55	24	31	2

[1] *Social Surveys Ltd.*, p. 11.

It is evident that the larger the holding the more likelihood that it will grow, the smaller it is the greater the likelihood that it will not grow or it will diminish. Such a tendency will of course, increase the already high degree of concentration, and this may have the effect of stabilising the National Savings Fund in the form of deposits and Certificates thus rendering their withdrawal for consumption less likely than appears at first sight, though they may well act as cushions in times of falling trade.

In this context it should be noted that some of the forms of saving covered may be described as contractual. Among these are mortgage repayments to Building Societies, Life Assurance and some of the forms of Provident Societies' Funds such as Trade Union Funds. Their development may be expected to be more steady and less influenced by sudden withdrawals with changing economic conditions. Others are repositories for casual or occasional savings such as the group called National Savings, Building Societies' deposits and share capital. Cooperative Society funds and Railway Savings Bank funds. Here additions and withdrawals are likely to be influenced considerably by changing economic conditions.

---

[1] It is clear from the *Building Societies Yearbook* that this constituted a major problem in the early part of the war.

Two particular factors may be expected to have far-reaching effects both on the total amount of institutional savings, and on the distribution as between institutions; the social services and the redistribution of personal incomes. It is too early yet to be able to gauge the extent of these influences though there is some indication even in the figures given here. Broadly, it appears possible that the typical working-class institutions will be adversely affected as savings media by the social services without gaining much advantage from the redistribution of income. Among these may be counted two of the most important of the groups of Provident Societies, namely Friendly Societies, and Industrial Assurance.

On the other hand, two important groups, namely Industrial and Provident Societies and Trade Unions,[1] would benefit from the redistribution of income without suffering any losses due to the institution of the social services. In the case of Building Societies these have for some time been more of a middle class than a working class movement especially in respect of shareholders and depositors, and the effects here are the more doubtful as many other factors play an important part in determining the future growth of these institutions. Life Assurance is by and large a savings medium for the middle classes, and therefore will suffer little loss as a result of social security measures. As far as it is a first-line security in most cases it should gain rather than lose from the redistribution of incomes, since the middle classes would tend to let other savings forms fall off first and possibly new recruits may be drawn from the working classes.

Social Security measures may detract from the importance of the National Savings media for the small saver. The redistribution of income will reduce the ability and possibly the willingness to save of the large-scale saver. Again, however, National Savings media tend to be a first line security for large savers who are likely to let less secure investments go first. This again is guess work and it will be some time before the effects of high employment, redistributive taxation and social security on the saving habits of the community can be assessed. The published figures for institutional savings are, quite apart from the deficiencies mentioned earlier, of strictly limited value, because they do not enable us to analyse savings in relation to income and social status.

ESME PRESTON.

---

[1] These could benefit either by being able to raise the level of contributions, or by members moving from lower to higher grades of contributions that already are set.

THE NATIONAL INCOME: SECOND QUARTER OF 1950

(All tables contain figures in £ millions at annual rates. For notes on definitions and methods see the BULLETIN for May, 1950, and earlier numbers.)

TABLE I

National Income at Current Factor Cost, Seasonally Corrected

	1948	1949	1949				1950	
			I	II	III	IV	I	II
Agriculture ...	550	590	570	580	610	610	610	610
Industry ...	5,380	5,850	5,570	5,830	5,890	6,120	6,330	6,490
Services ...	2,890	3,130	3,070	3,100	3,160	3,190	3,190	3,220
Total Business	8,820	9,570	9,210	9,510	9,660	9,920	10,130	10,320
Government ...	1,060	1,130	1,125	1,135	1,125	1,125	1,120	1,115
Other	420	425	425	425	425	425	430	430
Gross National Income ...	10,300	11,125	10,760	11,070	11,210	11,470	11,680	11,865
Less Depreciation	—935	—975	—960	—970	—980	—990	—1,000	—1,010
Net National Income ...	9,365	10,150	9,800	10,100	10,230	10,480	10,680	10,855

TABLE II

National Income at Average 1949 Factor Cost, Seasonally Corrected

	1948	1949	1949				1950	
			I	II	III	IV	I	II
Agriculture ...	580	590	600	580	600	590	600	600
Industry ...	5,470	5,850	5,650	5,840	5,880	6,040	6,180	6,320
Services ...	3,040	3,130	3,100	3,130	3,130	3,160	3,160	3,160
Total Business	9,090	9,570	9,350	9,550	9,610	9,790	9,940	10,080
Government ...	1,105	1,130	1,140	1,140	1,130	1,120	1,115	1,105
Other	420	425	425	425	425	425	430	430
Gross National Income ...	10,615	11,125	10,915	11,115	11,165	11,335	11,485	11,615
Less Depreciation	—935	—975	—960	—970	—980	—990	—1,000	—1,010
Net National Income ...	9,680	10,150	9,955	10,145	10,185	10,345	10,485	10,605

THE AGGREGATE

The national income appears to have continued to increase at a rate of some £700—£800 millions per annum, at current prices, almost entirely because of increases in the industrial sector. The output of the Government sector continued to fall slightly, because of reductions in numbers employed in central Government service.

Table II shows that the increase is still predominantly (about two-thirds) a 'real' one, and this is wholly due to higher industrial output. This continued expansion is the more satisfactory in that manpower in the industrial sector is hardly rising. The movements of output and manpower have been as follows :—

Indices of Industrial Production and Manpower
(1946=100)

	(1) *Production* *(Seasonally Corrected)*	(2) *Manpower*	(1) ÷ (2) × 100 *Overall Productivity*
1948 Average	121	111	109
1949 Average	129	112½	114½
1949 First Quarter ...	124½	112	111½
Second Quarter ...	128½	112	115
Third Quarter ...	129½	112½	115
Fourth Quarter ...	133	113½	117½
1950 First Quarter ...	136	113½	120
Second Quarter ...	139	114	122½

The rise in the last column, ' overall productivity ' appears to have been rather less than 5 per cent per annum up to the start of 1949, and about 7-8 per cent per annum since. The steady increase of 2½ points per quarter in the last column is particularly impressive. Criticism of some uses of ' overall ' productivity comparisons have been much voiced recently, and rightly, but on the whole it is surely better to have ' overall productivity ' rising than falling.[1]

The ' overall productivity ' expressed as an index of the corresponding value a year previously has been :

1949 Whole	105.2
1950 First Quarter	107.7
1950 Second Quarter	106.6

The latest value is slightly depressed by the abnormally high value of production in the second quarter of 1949.

Assuming that employment stays about constant, in view of military recruitment, we can estimate the seasonally corrected values of the production index for the rest of the year on the assumption that ' overall productivity ' continues to rise by 2½ points per quarter; and from these, dividing by the correction factor, we can get the raw production index. By way of comparison we can show the index numbers corresponding to an annual ' overall productivity ' increase of 3½-4 per cent.

Anticipated Production Index Numbers

	Assuming Productivity Rise at a rate of 7–8 per cent per annum	*Assuming Productivity Rise at a rate of 3½–4 per cent per annum*
July	131	130
August	130	128
September	145	143
October	149	146
November	153	150
December	144	141

Unfortunately the behaviour of the index is not entirely regular, so that if the value for any one month does in fact fall outside these limits, that alone would not be sufficient to indicate a change in the rate of increase of productivity: only a sequence outside would signify that productivity increases were below 3½ or above 8 per cent per annum. A succession of values between the limits would indicate a productivity rise of 3½ - 8 per cent per annum. (If employment changes by more than a few thousand, the above figures should of course be adjusted accordingly).

---

[1] Even the transfer of labour to industries with a high value of output per head often denotes an economic improvement.

To see where, within the industrial sector, the increase has occurred we can make the same calculation, only this time taking four months (March-June) because of the greater instability of indices for smaller groups.[1]

(March–June, 1949=100)	*Output*	*Employment*	*Implied ' Productivity '*
Mining	102	97½	104½
Manufacturing	109½	102	107½
Building	105½	100½	105
Utilities	104½	106	99

The corresponding ' productivity ' indices previously calculated for the period December, 1949—February, 1950 were as follows[2]: Mining 105, Manufacturing 107, Building 105½, Utilities 99½—in each case almost exactly the same. The continued tendency for the ' utilities ' to recruit staff faster than output rises is now worth noting. It may be because the increased staff is being allocated to development rather than production, but certainly some explanation is worth seeking. The rise in output per head in mining has been more than enough to offset the falling labour force, but the wastage prevents a fast enough expansion to solve our coal problems. In individual sectors of manufacturing industry we at last have complete employment statistics for a five-month period in each year, enabling a fairly precise ' productivity ' analysis to be made for January to May, 1950:[3]

Output, Employment and Productivity in various Industries in January–May, 1950 compared with January–May 1949 (Jan.–May, 1949=100)

	Output	*Employment*	*' Productivity '*
China	101½	101	100½
Glass	100½	103½	97
Bricks, Cement, etc.	105½	103½	101½
Ferrous metals	103½	100	103½
Non-Ferrous metals	104½	100	104
Engineering	106	99½	106½
Vehicles	118½	101½	116½
Metal Goods*	105	100½	104½
Precision instruments†	137	103½	132½
Chemicals	107	103	104
Textiles	111	104½	106
Clothing	107½	105	102½
Leather goods	108½	105	103½
Food	108½	103½	105
Drink and Tobacco	99	101	98
Wood manufactures	111½	104½	106½
Paper, printing	123	105	117
Other industries*	116	102	113½

*Jan.–April only. †Jan.–March only.

---

[1] The employment data are actually for 5 months: end-February to end-June.

[2] BULLETIN, Vol. 12, p. 140.

[3] As before, the employment data start at the end of the previous month and end at the end of the period.

The last analysis made[1] was based on incomplete employment data, and overlapped with the above. However, it is slightly encouraging to see that the analysis above suggests a higher ‘ productivity ’ than the former one for most industries, signifying rising rates of productivity growth. The figures for major industries such as metals, chemicals, engineering and textiles are noteworthy and suggest a more solid growth of productivity than did the last analysis.

TABLE III

National Income by Distributive Shares, Seasonally Corrected

			1949				1950	
	1948	1949	I	II	III	IV	I	II
Wages ...	4,050	4,280	4,190	4,280	4,290	4,360	4,415	4,445
Salaries ...	2,140	2,250	2,225	2,245	2,260	2,270	2,280	2,290
Forces' Pay ...	245	245	250	245	240	235	230	220
Rent	465	470	470	470	470	475	475	480
Profits and Interest ...	(2,465)	(2,905)	(2,665)	(2,860)	(2,970)	(3,140)	(3,280)	(3,420)
Net National Income ...	9,365	10,150	9,800	10,100	10,230	10,480	10,680	10,855

DISTRIBUTIVE SHARES

Since it is most unlikely that wage and salary increases absorbed more than a small part of the quarterly increase of some £200m. in the aggregate, the bulk must be attributable to profits. Some of this no doubt went to proprietors in distribution as a result of the higher turnover of consumers' goods, but the greater part has obviously been flowing into company reserves.[2] The continuation of this tendency is evidently introducing a significant change in the country's income structure in favour of undistributed profits.

TABLE IV

Foreign Trade at Current Prices, NOT Seasonally Corrected

			1949				1950	
	1948	1949	I	II	III	IV	I	II
Visible Imports	1,770	1,970	1,845	2,005	1,990	2,040	2,105	2,320
Invisible Imports	455	530	515	510	570	525	530	550
Total Payments	2,225	2,500	2,360	2,515	2,560	2,565	2,635	2,870
Visible Exports	1,555	1,790	1,850	1,770	1,730	1,810	2,030	2,035
Invisible Exports	565	640	600	595	675	690	670	700
Total Receipts	2,120	2,430	2,450	2,365	2,405	2,500	2,700	2,735
Deficit (—) or Surplus(+) ...	—105	—70	+90	—150	—155	—65	+65	—135

---

[1] BULLETIN, Vol. 12, p. 141.

[2] A rough allocation of inventory gains may allow us in future estimates to restore the estimates of changes in personal income.

TABLE V. *Foreign Trade at Current Prices, Seasonally Corrected*

	1948	1949	1949				1950	
			I	II	III	IV	I	II
Visible Imports	1,770	1,970	1,920	1,915	1,960	2,090	2,195	2,215
Invisible Imports	455	530	530	530	530	530	555	570
Total Payments	2,225	2,500	2,450	2,445	2,490	2,620	2,750	2,785
Visible Exports	1,555	1,790	1,840	1,785	1,770	1,770	2,020	2,040
Invisible Exports	565	640	600	600	670	690	675	705
Total Receipts	2,120	2,430	2,440	2,385	2,440	2,460	2,695	2,745
Deficit (—) or Surplus (+)	—105	—70	—10	—60	—50	—160	—55	—40

FOREIGN TRADE

The estimates for visible imports and invisible items in the first quarter have been revised. For the second quarter, a slightly higher correction factor has been used in the case of imports, and a lower one for exports, since imports were substantially higher in this quarter while exports actually fell off slightly. This difference, together with the seasonal correction, has the effect of reducing considerably the contrast between the two quarters which is apparent from the Board of Trade figures. When we take the two quarters together, it seems unlikely that during this period the United Kingdom had a substantial overall current account surplus. This cannot of course be inferred from our 'cash account' figures, since these follow the rather imperfect conventions of the Balance of Payments White Paper, and do not necessarily indicate the true current account position. For the latter the Board of Trade figures of the value of shipments provide a more useful basis. The ' crude ' visible deficit for the first half of this year was running at an annual rate of £440m., or if we allow for seasonal factors, about £425m. This compares with a rate of £445m., for the year 1949, so that the improvement on the visible side is very slight. These figures cannot of course be compared with the surplus on invisible account, since imports are valued c.i.f.; in order to arrive at the ' true ' visible deficit, imports should be valued f.o.b. It is not possible to estimate very accurately the f.o.b. value[1] but the ' true ' visible deficit fo the first half of 1950 was possibly in the region of £140-£150m. It is thi figure which has to be related to the invisible surplus. This is estimated (in Cmd. 7928) at £110m. for the year 1949. Since there may have been a rather larger surplus for the first half of this year, it is quite possible that during this period we were in overall balance on current account.[2] It seems unlikely, however, that the surplus on invisible account greatly exceeded the visible trade deficit.

---

[1] It is sometimes assumed that the f.o.b. value is 15 per cent below the c.i.f. value, but there is no evidence which would justify this procedure—in fact, 15 per cent is probably too high a correction factor.

[2] This is possible in spite of the fact that a current account deficit is shown in our tables. The difference between the ' true ' current account deficit and our figure (and the figure which appears in the Balance of Payments White Paper) is equal to the excess of the value of exports shipped but not paid for, over the value of imports shipped but not paid for.

Table VI. *Final Consumption at Current Prices, Seasonally Corrected*

			1949				1950	
	1948	1949	I	II	III	IV	I	II
Food	2,220	2,380	2,250	2,365	2,395	2,515	2,635	2,610
Drink ...	760	720	700	730	725	725	685	730
Tobacco ...	775	765	725	770	820	745	730	775
Rent and Rates	600	615	610	610	615	615	620	630
Fuel and Light	340	350	355	340	340	355	365	370
Household Goods	520	580	555	580	580	610	640	630
Clothing ...	855	950	925	960	960	990	950	945
Other	2.045	2,050	2,050	20,55	2,055	2,045	2,085	2,040
Total	8,110[1]	8,405*	8,170	8,410	8,445	8,600	8,710	8,730

*Detail does not add to total because of rounding.

Table VII. *Final Consumption at average 1949 Prices, Seasonally Corrected*

			1949				1950	
	1948	1949	I	II	III	IV	I	II
Food	2,280	2,380	2,365	2,290	2,340	2,530	2,500	2,350
Drink ...	755	720	680	735	730	730	685	755
Tobacco ...	785	765	730	770	820	740	730	770
Rent and Rates	600	615	610	610	615	615	620	620
Fuel and Light	345	350	345	350	340	355	355	365
Household Gds.	525	580	555	580	580	610	640	620
Clothing ...	895	950	920	960	915	1,000	955	900
Other	2,075	2,050*	2,055	2,060	2,045	2,045	2,085	2,030
Total	8,260	8,405[1]	8,260	8,355	8,385	8,625	8,570	8,410

*Detail does not add to total because of rounding.

CONSUMPTION

The seasonally corrected estimates of consumption expenditure at current prices, presented in Table VI, show that the high level of expenditure attained in the first quarter of 1950 has been maintained, with larger expenditures on Drink and Tobacco offsetting slightly smaller expenditures on several other items.

A major change has been made in the construction of the fixed-price estimates in Table VII. The Central Statistical Office now publish consumption estimates at average 1948 prices,[1] and our fixed-price series are obtained by converting the C.S.O. estimates to average 1949 prices and applying seasonal correction factors. Previously we have been using price-indices from the Interim Index of Retail Prices, which were rather unsatisfactory, because of their limited coverage and their pre-war quantity weights. The price-indices implied by the Central Statistical Office estimates are, however, somewhat unstable : an instability which must be at least partly due to seasonal factors. For example, the price-indices for food and clothing move as follows :—

	1949				1950		*Average 1948=100*
	I	II	III	IV	I	II	
Food	97.4	105.7	105.5	102.1	108.2	114.2	
Clothing	106.5	106.8	106.9	106.2	106.8	113.4	

---

[1] See for example, Monthly Digest of Statistics for August, 1950, Table 156 (ii).

Such movements cause our price-corrected consumption estimates to be rather erratic, and, in particular, they indicate a large fall in ' real ' consumption between the first and second quarters of this year. This fall is probably at least partly a ' statistical ' one, in the sense that our seasonal corrections are no longer strictly accurate now that we use the C.S.O. implied price-index. There is reason to suppose that the C.S.O. Paasche-type indices are more susceptible to seasonal influences than are the series implied by the Interim Index of Retail Prices. And since our seasonal correction factors are derived from fixed-price series obtained by deflating value rises by the Interim Index of Retail Prices, any *greater* seasonality of the C.S.O. implied index will have the effect of introducing a larger seasonal element into our price-corrected series. This seasonal element cannot be eliminated until we have a sufficient range of C.S.O. fixed-price estimates to enable seasonal correction factors to be calculated directly from this data. The special problems involved in the use of this implied price-index will be further considered before the next set of estimates is presented.

Annual Estimates

Table VIII shows the annual estimates obtained by correcting the official calendar year figures for changes indicated by our quarterly estimates. These annual figures refer to the period ending June 30th, which happens to correspond to the accounting year for the European Recovery Programme. The estimated rise in the share of profits comes out more sharply here. These estimates also show a rather spurious worsening of the foreign balance, because the dividing line leaves the ' bad ' experience of the last half of 1949 wholly in the latter period.

Uses of National Income

Tables IX, X, and XI contain quarterly estimates of the items of national expenditure. In the construction of these estimates, we have once again changed our method of estimating Government current spending, and we now distribute the 1950 Economic Survey forecast for this item over the quarters. It is to be assumed that the Survey forecast is a careful one, made in the light of all evidence available at the time that the Survey was written. Nevertheless, this change is essentially a confession of failure, because it has always been our object to base our estimates on current data, rather than place reliance on forecasts which may be invalidated by subsequent events. Our efforts to base the estimates on current ' Supply Issues ' have had to be abandoned. The erratic movements of this curious aggregate, which in any case only obliquely reflects Government current spending, are such as to make it a misleading basis for calculation.[1]

[1] The method described at length in the May BULLETIN yielded a series which indicated a sharp and continued fall in Government expenditure since the beginning of the year. This was chiefly due to the lower level of supply issues during the first two quarters of this year as compared with corresponding period of 1949, which pulled down the ' trend ' value of supply issues based on four-quarter moving averages. It seems prima facie improbable that such a marked fall in expenditure has taken place. The lower level of supply issues is probably explicable technically : perhaps departments have reduced their balances over this period.

TABLE VIII

National Income and Expenditure for E.R.P. Years

	1948–9	1949–50		1948–9	1949–50		1948–9	1949–50
Agriculture	570	610	Wages	4,170	4,380	Consumption	8,230	8,630
Industry	5,600	6,200	Salaries	2,210	2,270	Govt. Current Spending	1,890	2,145
Services	2,990	3,190	Forces' Pay	240	230	Net Investment	(1;230)	(1,545)
Total Business	9,160	10,000	Rent	470	475			
Government	1,105	1,120	Profits and Interest	(2,640)	(3,195)	Export Deficit (—) or Surplus (+)	+10	—70
Other	425	430						
Gross National Income	10,690	11,550				Net National Product	11,360	12,255
Less Depreciation	—960	—1,000				*Less* Net Indirect Taxes	—1,630	—1,705
Net National Income	9,730	10,550	Net National Income	9,730	1,0550	Net National Income	9,730	10,550

TABLE IX

National Expenditure at Current Prices NOT Seasonally Corrected

			1949				1950	
	1948	1949	I	II	III	IV	I	II
Consumption	8,110	8,405	7,680	8,350	8,610	8,990	8,225	8,690
Govt. current spending	1,770	2,035	1,940	2,015	2,075	2,120	2,170	2,210
Net Investment	1,205	1,415	(1,520)	(1,540)	(1,210)	(1,380)	(1,755)	(1,945)
Export deficit (—) or surplus (+)	—105	—70	+90	—150	—155	—65	+65	—135
Net National Product	10,980	11,785	11,230	11,755	11,740	12,425	12,215	12,710
Less Net Indirect Taxes	—1,615	—1,635	—1,490	—1,585	—1,750	—1,745	—1,565	—1,760
Net National Income	9,365	10,150	9,740	10,170	9,990	10,680	10,650	10,950

TABLE X

National Expenditure at Current Prices, Seasonally corrected

			1949				1950	
	1948	1949	I	II	III	IV	I	II
Consumption ...	8,110	8,405	8,170	8,410	8,445	8,600	8,710	8,730
Govt. current spending ...	1,770	2,035	1,940	2,015	2,075	2,120	2,170	2,210
Net Investment	1,205	1,415	(1,275)	(1,365)	(1,460)	(1,590)	(1,490)	(1,715)
Export deficit (—) or surplus (+)	—105	—70	—10	—60	—50	—160	—55	—40
Net National Product ...	10,980	11,785	11,375	11,730	11,930	12,145	12,315	12,615
Less Net Indirect Taxes	—1,615	—1,635	—1,575	—1,630	—1,700	—1,665	—1,635	—1,760
Net National Income ...	9,365	10,150	9,800	10,100	10,230	10,480	10,680	10,855

TABLE XI

National Expenditure at Average 1949 Prices, Seasonally Corrected

			1949				1950	
	1948	1949	I	II	III	IV	I	II
Consumption ...	8,260	8,405	8,260	8,355	8,385	8,625	8,570	8,410
Govt. current spending ...	1,840	2,035	1,950	2,025	2,085	2,100	2,135	2,155
Net Investment	(1,300)	1,415	(1,310)	(1,490)	(1,550)	(1,345)	(1,310)	(1,550)
Export deficit (—) or surplus (+)	—90	—70	+20	—70	—150	—85	+80	+150
Net National Product ...	11,310	11,785	11,540	11,800	11,870	11,985	12,095	12,265
Less Net Indirect Taxes	—1,630	—1,635	—1,585	—1,655	—1,685	—1,640	—1,610	—1,660
Net National Income ...	9,680	10,150	9,955	10,145	10,185	10,345	10,485	10,605

It is, of course, particularly disturbing that we have to make this change at a time when changes in Government expenditure seem likely to exert a major influence on economic developments. It emphasises that the information supplied in the conventional exchequer returns is so inadequate that it is practically impossible for the public to discover what is happening to one of the major items of national expenditure.

Interpretation of the shape of national expenditure has therefore to be even more cautious than formerly. It can be reduced to the problem of accounting for the (seasonally corrected) rise of £200m. per quarter in the national income. However much Government spending rose, it could hardly have accounted for the major portion of this rise, and if we correct for seasonal influences, there seems little change in the foreign balance. Consumption rose, but not by enough to account for the remainder, and presumably there must be some real basis for the rise in the residual, investment at home, probably a continued rise in stocks. Apparel stocks were continuing to rise, and so were metal stocks, though there were falls elsewhere (notably for rubber).[1] Government stock-building of food may also have continued, judging from the rather high imports (relative to consumption) in May and June.

The economic position thus on the whole continues to be a strong one. The crucial question is whether it is strong enough to carry the defence programme. It is still not clear how much of the increase is to be financed by the United States, but it looks as if U.K. spending on defence may increase at a rate of something like £200 million per annum. At first sight, this would seem fairly easy to cope with, in view of the present rate of increase of ' real ' national income of some £500 million per annum. If the defence programme absorbs an additional £200 million of real resources per annum, then £300 million will be available for other purposes : exports, consumption, non-military investment, and non-military government expenditure On present form, (allowing for wage and dividend stabilisation, and the high marginal incidence of *present* tax rates), less than half of an increase in national income will impinge on the consumption-good market. Thus the present programme would seem to be just manageable out of current resources, without recourse to additional taxation. The implication of this argument is that consumption increases and the defence programme will absorb the greater part of the increase in ' real ' national income, and that any substantial increase in exports, non-military investment (*e.g.* housebuilding) or non-military government expenditure (*e.g.* social services) will lead to a resurgence of inflationary pressures: unless an increase in one is offset by a reduction elsewhere.

But there is one essential qualification which must be made, and this concerns the effect of rearmament on ' overall productivity '. As we have noted above, the rise in ' real ' national income is almost entirely (in the absence of manpower increases) dependent upon ' productivity ' increases. Although the movements of ' productivity ' over the past year have been encouraging, it is possible that rearmament will have a marked (adverse) effect on ' productivity ' in some industries. Bottlenecks, both in materials and labour, may appear, checking the ' productivity ' increases and therefore the rise in ' real ' national income. For example, the spectacular ' productivity ' increases in vehicles, and in paper and printing, have been largely due to improved material supplies, which may be cut abruptly by the military programme. The real cost of the defence programme is production for other purposes foregone, and this is likely to be greater than would correspond to the nominal value of additional military expenditure.

Dudley Seers
In association with P. D. Henderson *and* D. G. Holland

---

[1] Though the sharp rise in imports of rubber may mean a corresponding rise in ' stocks in transit ', now excluded from the official returns.